

CITY OF SABETHA, KANSAS
Financial Statements
For the Year Ended December 31, 2012

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For the Year Ended December 31, 2012

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MIZE HOUSER
COMPANY_{P.A.}

INDEPENDENT AUDITOR'S REPORT

Mayor and City Commission
City of Sabetha, Kansas

We have audited the accompanying fund summary statement of regulatory basis receipts, expenditures, and unencumbered cash balances of the municipal financial reporting entity of the City of Sabetha, Kansas, (the City), as of and for the year ended December 31, 2012 and the related notes to the financial statement.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of this financial statement in accordance with the Kansas Municipal Audit and Accounting Guide as described in Note 1 to meet the financial reporting requirements of the State of Kansas. Management is also responsible for the design, implementation and maintenance of internal control relevant to the preparation and fair presentation of the financial statement that is free from material misstatement, whether due to fraud or error.

Auditor's Responsibility

Our responsibility is to express an opinion on the financial statement based on our audit. We conducted our audit in accordance with auditing standards generally accepted in the United States of America, the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States and the *Kansas Municipal Audit and Accounting Guide*. Those standards require we plan and perform the audit to obtain reasonable assurance about whether the financial statement is free of material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statement. The procedures selected depend on auditor's judgment, including the assessment of the risks of material misstatement of the financial statement, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statement in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statement.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

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Basis for Adverse Opinion on U.S. Generally Accepted Accounting Principles

As described in Note 1 of the financial statement, the financial statement is prepared by the City to meet the requirements of the State of Kansas on the basis of the financial reporting provisions of the Kansas Municipal Audit and Accounting Guide, which is a basis of accounting other than accounting principles generally accepted in the United States of America.

The effects on the financial statement of the variances between the regulatory basis of accounting described in Note 1 and accounting principles generally accepted in the United States of America, although not reasonably determinable, are presumed to be material.

Adverse Opinion on U.S. Generally Accepted Accounting Principles

In our opinion, because of the omission of the financial data of one, but not all, of the related municipal entities of the City of Sabetha, Kansas and because of the significance of the matter discussed in the "Basis for Adverse Opinion on U.S. Generally Accepted Accounting Principles" paragraph, the financial statement referred to above does not present fairly, in conformity with accounting principles generally accepted in the United States of America, the financial position of the City as of December 31, 2012, or changes in financial position and cash flows thereof for the year then ended.

Opinion on Regulatory Basis of Accounting

In our opinion, the financial statement referred to above presents fairly, in all material respects, the aggregate cash and unencumbered cash balance of the City as of December 31, 2012, and the aggregate receipts and expenditures for the year then ended in accordance with the financial reporting provisions of the Kansas Municipal Audit and Accounting Guide described in Note 1.

Report on Supplementary Information

Our audit was conducted for the purpose of forming an opinion on the fund summary statement of regulatory basis receipts, expenditures, and unencumbered cash balances (basic financial statement) as a whole. The summary of regulatory basis expenditures-actual and budget, individual fund schedules of regulatory basis receipts and expenditures-actual and budget, schedule of receipts and expenditures – related municipal entities, and the schedule of regulatory basis receipts and expenditures-agency funds (Schedules 1, 2, 3 and 4 as listed in the table of contents) are presented for analysis and are not a required part of the basic financial statement, however are required to be presented under the provisions of the Kansas Municipal Audit and Accounting Guide. Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the basic financial statement. The information has been subjected to the auditing procedures applied in the audit of the basic financial statement and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the basic financial statement or to the basic financial statement itself, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the information is fairly stated in all material respects in relation to the basic financial statement as a whole, on the basis of accounting described in Note 1.

Mike Houser: Company PA

July 31, 2013

City of Sabetha, Kansas
Summary Statement of Cash Receipts, Expenditures and Unencumbered Cash
Regulatory Basis
For the Year Ended December 31, 2012

Funds	Beginning Unencumbered Cash Balance	Prior Year Cancelled Encumbrances	Receipts	Expenditures	Ending Unencumbered Cash Balance	Add: Encumbrances and Accounts Payable	Ending Cash Balance
Governmental Type Funds:							
General Funds:							
General	\$ 401,496	\$ -	\$ 1,923,545	\$ 1,877,208	\$ 447,833	\$ -	\$ 447,833
Special Purpose Funds:							
Library	3,051	-	114,342	113,858	3,535	-	3,535
Airport	157,166	-	132,650	121,468	168,348	-	168,348
Parks and Recreation	-	-	4,873	4,873	-	-	-
Highway	-	-	66,396	66,396	-	-	-
Bond and Interest Funds:							
Debt Service	408,344	-	32,643	118,890	322,097	-	322,097
Capital Project Funds:							
Library Improvement	152,722	-	231,807	183,742	200,787	-	200,787
Business Funds:							
Electric	3,304,916	-	5,932,825	5,237,598	4,000,143	-	4,000,143
Water	156,632	-	739,228	793,377	102,483	-	102,483
Sewer	153,627	-	613,046	666,946	99,727	-	99,727
Total Primary Government	4,737,954	-	9,791,355	9,184,356	5,344,953	-	5,344,953
Related Municipal Entities:							
Mary Cotton Public Library	147,467	-	143,097	148,726	141,838	-	141,838
Sabetha Cemetery	9,927	-	41,226	44,523	6,630	5,275	11,905
Total Reporting Entity	\$ 4,895,348	\$ -	\$ 9,975,678	\$ 9,377,605	\$ 5,493,421	\$ 5,275	\$ 5,498,696

Composition of Cash:

M & J Bank	
Checking	\$ 29,430
Money Market	2,678,537
Community National Bank	
Checking	316,948
Money Market	10,114
United Bank	
Checking	1,009,253
Money Market	1,380,014
Library Checking	40,299
Library Money Market	15,332
Library Certificate of Deposit	86,207
Cemetery Checking	2,532
Cemetery Money Market	5,811
Cemetery Certificate of Deposit	3,562
Subtotal	5,578,039
Less: Agency Funds per Schedule 4	[79,343]
Total Reporting Entity	\$ 5,498,696

The notes to the financial statements are an integral part of this statement.

City of Sabetha, Kansas
Notes to the Financial Statements
For the Year Ended December 31, 2012

NOTE 1 - Summary of Significant Accounting Policies

Financial Reporting Entity

The City of Sabetha (the City) is a municipal corporation governed by a five-member commission. These financial statements present only the primary government of the City and the Mary Cotton Public Library and Sabetha Cemetery related municipal entities. They exclude one of the related municipal entities for which the City is considered financially accountable:

The Sabetha Housing Authority

Separate financial statements may be obtained directly from the above.

Basis of Accounting

Regulatory Basis of Accounting and Departure from Accounting Principles Generally Accepted in the United States of America. The Kansas Municipal Audit and Accounting Guide (KMAAG) regulatory basis of accounting involves the recognition of cash, cash equivalents, marketable investments, and certain accounts payable and encumbrance obligations to arrive at a net unencumbered cash and investments balance on a regulatory basis for each fund, and the reporting of changes in unencumbered cash and investments of a fund resulting from the difference in regulatory basis revenues and regulatory basis expenditures for the fiscal year. All recognized assets and liabilities are measured and reported at cost, unless they have been permanently impaired and have no future cash value or represent no future obligation against cash. The KMAAG regulatory basis does not recognize capital assets, long-term debt, accrued receivables and payables, or any other assets, liabilities or deferred inflows or outflows, other than those mentioned above.

The municipality has approved a resolution that is in compliance with K.S.A. 75-1120a(c), waiving the requirement for application of generally accepted accounting principles and allowing the municipality to use the regulatory basis of accounting.

Departure from Accounting Principles Generally Accepted in the United States of America

The basis of accounting described above results in a financial statement presentation which shows cash receipts (except as noted), cash disbursements, cash and unencumbered cash balances, and expenditures compared to budget. Balance sheets that would have shown noncash assets such as receivables, inventories, and prepaid expense, liabilities such as deferred revenue and matured principal and interest payable, and reservations of the fund balance are not presented.

Under accounting principles generally accepted in the United States of America, encumbrances are only recognized as a reservation of fund balance; encumbrances outstanding at year end do not constitute expenditures or liabilities. Consequently, the expenditures as reported do not present the cost of goods and services received during the fiscal year in accordance with accounting principles generally accepted in the United States of America. Capital assets that account for the land, buildings and equipment owned by the City are not presented in the financial statements. Also, long-term debt such as general obligation bonds, temporary notes and compensated absences are not presented in the financial statements. Inventories and prepaid expenses which benefit future periods are recorded as an expenditure during the year of purchase, as required by state statutes.

Regulatory Basis Fund Types

In governmental accounting, a fund is defined as an independent fiscal and accounting entity with a self-balancing set of accounts recording cash and other financial resources, together with all related liabilities and residual equities or balances, and changes therein, which are segregated for the purpose of carrying on specific activities or attaining certain objectives in accordance with special regulations, restrictions or limitations.

City of Sabetha, Kansas
Notes to the Financial Statements
For the Year Ended December 31, 2012

NOTE 1 - Summary of Significant Accounting Policies (Continued)

Governmental Fund Types

The following types of funds comprise the financial activities of the City for the year ended December 31, 2012:

General Fund - the chief operating fund. Used to account for all resources except those required to be accounted for in another fund.

Special Purpose Fund - used to account for the proceeds of specific tax levies and other specific revenue sources (other than Capital Project and tax levies for long-term debt) that are intended for specified purposes.

Debt Service Fund - used to account for the accumulation of resources, including tax levies, transfers from other funds and payment of general long-term debt.

Capital Projects Fund - used to account for the debt proceeds and other financial resources to be used for acquisition or construction of major capital facilities or equipment.

Business Fund - funds financed in whole or in part by fees charged to users of the goods or services (i.e. enterprise and internal service fund, etc.)

Fiduciary Fund - used to report assets held in a trustee or agency capacity for others and which therefore cannot be sued to support the government's own programs (i.e. payroll clearing fund, permanent trust funds, etc.).

Budgetary Information

Kansas statutes require that an annual operating budget be legally adopted for the general fund, special purpose funds (unless specifically exempted by statute), debt service funds, and business funds. Although directory rather than mandatory, the statutes provide for the following sequence and timetable in the adoption of the legal annual operating budget:

1. Preparation of the budget for the succeeding calendar year on or before August 1st.
2. Publication in local newspaper on or before August 5th of the proposed budget and notice of public hearing on the budget.
3. Public hearing on or before August 15th, but at least ten days after publication of notice of hearing.
4. Adoption of the final budget on or before August 25th.

The statutes allow for the governing body to increase the originally adopted budget for previously unbudgeted increases in revenue other than ad valorem property taxes. To do this, a notice of public hearing to amend the budget must be published in the local newspaper. At least ten days after publication the hearing may be held and governing body may amend the budget at that time. The budget for the year ended December 31, 2012 was not amended.

The statutes permit transferring budgeted amounts between line items within an individual fund. However, such statutes prohibit expenditures in excess of the total amount of the adopted budget of expenditures of individual funds. Budget comparison statements are presented for each fund showing actual receipts and expenditures compared to legally budgeted receipts and expenditures.

All legal annual operating budgets are prepared using the regulatory basis of accounting, in which, revenues are recognized when cash is received and expenditures include disbursements, accounts payable, and encumbrances, with disbursements being adjusted for prior year's accounts payable and encumbrances. Encumbrances are commitments by the municipality for future payments and are supported by a document evidencing the commitment, such as a purchase order or contract. Any unused budgeted expenditure authority lapses at year-end.

City of Sabetha, Kansas
Notes to the Financial Statements
For the Year Ended December 31, 2012

NOTE 1 - Summary of Significant Accounting Policies (Continued)

Budgetary Information (Continued)

A legal operating budget is not required for capital project funds or fiduciary funds.

Spending in funds which are not subject to the legal annual operating budget requirement is controlled by federal regulations, other statutes, or by the use of internal spending limits established by the governing body.

NOTE 2 - Leases

The City has entered into the following lease agreements as lessee for financing the acquisition of equipment:

Item		Final	Interest	Original	Balance
<u>Purchased</u>	<u>Issued</u>	<u>Maturity</u>	<u>Rate</u>	<u>Amount</u>	<u>December 31, 2012</u>
Copier Lease	2011	2013	N/A	\$ 15,000	\$ 1,080
Sewer camera	2011	2013	3.80%	48,660	16,358
Case Backhoe	2010	2014	3.83%	59,944	40,707
Pelican Street Sweeper	2012	2017	3.24%	161,580	161,580
					<u>\$ 219,725</u>

The future minimum lease obligations and the net present value of these minimum lease payments as of December 31, 2012, were as follows:

<u>Year Ending</u> <u>December 31,</u>	
2013	\$ 75,146
2014	57,058
2015	35,525
2016	35,525
2017	<u>35,525</u>
Total minimum lease payments	238,779
Less: amount representing interest	<u>[19,054]</u>
Present value of minimum lease payments	<u>\$ 219,725</u>

City of Sabetha, Kansas
Notes to the Financial Statements
For the Year Ended December 31, 2012

NOTE 3 - Long-Term Debt

During the year ended December 31, 2012, the following changes occurred in long term liabilities:

	Balance January 1, 2012	Additions	Reductions	Balance December 31, 2012	Amounts Due Within One Year
General obligation bonds	\$ 990,000	\$ -	\$ 155,000	\$ 835,000	\$ 160,000
Special obligation	34,000	-	11,000	23,000	11,000
	<u>\$ 1,024,000</u>	<u>\$ -</u>	<u>\$ 166,000</u>	<u>\$ 858,000</u>	<u>\$ 171,000</u>
 KDHE revolving loan	 \$ 2,448,635	 \$ -	 \$ 145,170	 \$ 2,303,465	 \$ 149,707
Hospital construction					
general obligation bonds	4,280,000	-	185,000	4,095,000	150,000
General obligation bonds	<u>1,100,000</u>	<u>-</u>	<u>560,000</u>	<u>540,000</u>	<u>540,000</u>
	<u>\$ 7,828,635</u>	<u>\$ -</u>	<u>\$ 890,170</u>	<u>\$ 6,938,465</u>	<u>\$ 839,707</u>

General Obligation Bonds. The City issues general obligation bonds to provide funds for the acquisition and construction of major capital facilities. General obligation bonds have been issued for both general government and proprietary fund activities. These bonds are reported in the proprietary funds if they are expected to be repaid from proprietary fund revenues. In addition, general obligation bonds have been issued to refund both general obligation and revenue bonds.

General obligation bonds are direct obligations and pledge the full faith and credit of the City. These bonds generally are issued with equal amounts of principal maturing each year. General obligation bonds outstanding at December 31, 2012 are as follows:

<u>Purpose</u>	<u>Issued</u>	<u>Final Maturity</u>	<u>Interest Rates</u>	<u>Original Amount</u>	<u>Current Amount</u>
General government	1997	2013	4.23 - 6.25%	\$ 385,000	\$ 5,000
Library	2008-A	2017	3.00 - 3.70%	1,490,000	830,000
Hospital construction	2011-A	2033	2.00 - 4.00%	4,280,000	4,095,000
Water	2002	2013	2.00 - 4.05%	1,300,000	250,000
Electric	2008-A	2017	3.00 - 3.70%	<u>1,600,000</u>	<u>290,000</u>
				<u>\$ 9,055,000</u>	<u>\$ 5,470,000</u>

City of Sabetha, Kansas
Notes to the Financial Statements
For the Year Ended December 31, 2012

NOTE 3 - Long-Term Debt (Continued)

Annual debt service requirements to maturity for the general obligation bonds are as follows:

Year Ending December 31,	Governmental Funds		Enterprise Funds		Total	
	Principal	Interest	Principal	Interest	Principal	Interest
2013	\$ 160,000	\$ 29,126	\$ 690,000	\$ 143,550	\$ 850,000	\$ 172,676
2014	160,000	23,830	155,000	121,000	315,000	144,830
2015	165,000	18,550	155,000	117,900	320,000	136,450
2016	175,000	12,775	160,000	114,800	335,000	127,575
2017	175,000	6,475	165,000	111,600	340,000	118,075
2018-2022	-	-	875,000	499,000	875,000	499,000
2023-2027	-	-	995,000	374,645	995,000	374,645
2028-2032	-	-	1,175,000	191,390	1,175,000	191,390
2033	-	-	265,000	10,600	265,000	10,600
	<u>\$ 835,000</u>	<u>\$ 90,756</u>	<u>\$ 4,635,000</u>	<u>\$ 1,684,485</u>	<u>\$ 5,470,000</u>	<u>\$ 1,775,241</u>

Special Assessments. As provided by Kansas statutes, projects financed in part by special assessments are financed through general obligation bonds of the City and are retired from the Debt Service Fund. Special assessments paid prior to the issuance of bonds are recorded as revenue in the appropriate project. Special assessments received after the issuance of bonds are recorded as revenue in the Debt Service Fund.

Special Obligation Bonds. The City issues special obligation bonds to provide funds for the acquisition and construction of major capital facilities.

Special obligation bonds are direct obligations and pledge the full faith and credit of the City. These bonds generally are issued with equal amounts of principal maturing each year. Special obligation bonds outstanding at December 31, 2012 are as follows:

<u>Purpose</u>	<u>Issued</u>	<u>Final Maturity</u>	<u>Interest Rate</u>	<u>Original Amount</u>	<u>Current Amount</u>
General government	2001	2014	7.40%	<u>\$ 105,000</u>	<u>\$ 23,000</u>

Annual debt service requirements to maturity for the special obligation bonds are as follows:

Year Ending December 31,	
2013	\$ 12,702
2014	<u>12,888</u>
Total principal and interest	25,590
Less: interest	<u>[2,590]</u>
Total principal	<u>\$ 23,000</u>

City of Sabetha, Kansas
Notes to the Financial Statements
For the Year Ended December 31, 2012

NOTE 3 - Long-Term Debt (Continued)

State Agency Loans the Kansas Water Pollution Control Revolving Loan Fund for improving the wastewater system in Sabetha. In 2004, the City arranged for a \$3,250,000 loan through KDHE. The City is obligated to make semi-annual payments of \$106,567 from March 1, 2006 to September 1, 2025. These payments will include a gross interest rate of 2.54% plus a .25% service fee. At December 31, 2012, the outstanding principal balance was \$2,303,465. The following displays annual debt service requirements to maturity for the loan payable to be paid from service revenues, for the full proceeds amount:

Year Ending <u>December 31,</u>	
2013	\$ 213,134
2014	213,134
2015	213,134
2016	213,134
2017	213,134
2018-2022	1,065,671
2023-2025	<u>639,403</u>
Total principal, interest, and service fees	2,770,744
Less: interest and service fees	<u>[467,279]</u>
Total principal	<u>\$ 2,303,465</u>

NOTE 4 – Deposits and Investments

Deposits. K.S.A. 9-1401 establishes the depositories which may be used by the City. The statute requires banks eligible to hold the City's funds have a main or branch bank in the county in which the City is located, or in an adjoining county if such institution has been designated as an official depository, and the banks provide an acceptable rate of return on funds. In addition, K.S.A. 9-1402 requires the banks to pledge securities for deposits in excess of FDIC coverage. The City has no other policies that would further limit interest rate risk.

Investments. K.S.A. 12-1675 limits the City's investment of idle funds to time deposits, open accounts, and certificates of deposit with allowable financial institutions; U.S. government securities; temporary notes; no-fund warrants; repurchase agreements; and the Kansas Municipal Investment Pool. The City has no investment policy that would further limit its investment choices. As of December 31, 2012, the City held no investments.

Concentration of credit risk. State statutes place no limit on the amount the City may invest in any one issuer as long as the investments are adequately secured under K.S.A. 9-1402 and 9-1405.

Custodial credit risk – deposits. Custodial credit risk is the risk that in the event of a bank failure, the City's deposits may not be returned to it. State statutes require the City's deposits in financial institutions to be entirely covered by federal depository insurance or by collateral held under a joint custody receipt issued by a bank within the State of Kansas, the Federal Reserve Bank of Kansas City, or the Federal Home Loan Bank of Topeka, except during designated "peak periods" when required coverage is 50%. The City has no designated "peak periods".

At December 31, 2012, the City's carrying amount of deposits was \$5,424,296 and the bank balance was \$5,422,383. The bank balance was held by three banks resulting in a concentration of credit risk. Of the bank balance, \$750,000 was covered by federal depository insurance and the balance of \$4,672,383 was collateralized with securities held by the pledging financial institutions' agents in the City's name.

City of Sabetha, Kansas
Notes to the Financial Statements
For the Year Ended December 31, 2012

NOTE 4 – Deposits and Investments (Continued)

At December 31, 2012, the Library's carrying amount of deposits was \$141,838 and the bank balance was \$141,930. The bank balance was held by one bank resulting in a concentration of credit risk. All of the Library's bank balance was covered by federal depository insurance.

At December 31, 2012, the Cemetery's carrying amount of deposits was \$11,905 and the bank balance was \$11,905. The bank balance was held by one bank resulting in a concentration of credit risk. All of the Cemetery's bank balance was covered by federal depository insurance.

Custodial credit risk – investments. For an investment, this is the risk that, in the event of the failure of the issuer or counterparty, the City will not be able to recover the value of its investments or collateral securities that are in the possession of an outside party. State statutes require investments to be adequately secured.

NOTE 5 - Interfund Transfers

A reconciliation of transfers by fund type for 2012 follows:

	<u>To</u>	<u>From</u>
General Fund	\$ 71,269	\$ -
Parks and Recreation Fund	-	4,873
Highway Fund	-	66,396
	<u>\$ 71,269</u>	<u>\$ 71,269</u>

NOTE 6 - Retirement Plan

Plan Description. The City participates in the Kansas Public Employees Retirement System (KPERS). KPERS is a part of a cost-sharing, multiple-employer defined benefit pension plan as provided by Kansas law. KPERS provides retirement benefits, life insurance, disability income benefits, and death benefits. Kansas law establishes and amends benefit provisions. KPERS issue a publicly available financial report that includes financial statements and required supplementary information. Those reports may be obtained by writing to KPERS (611 South Kansas, Suite 100, Topeka, KS 66603) or by calling 1-888-275-5737.

Funding Policy - K.S.A. 74-419 and K.S.A. 74-49,210 establish the KPERS member-employee contribution rates. Effective July 1, 2009 KPERS has two benefit structures and funding depends on whether the employee is a Tier 1 or Tier 2 member. Tier 1 members are active and contributing members hired before July 1, 2009. Tier 2 members were first employed in a covered position on or after July 1, 2009. Kansas law establishes the KPERS member-employee contribution rate at 4% of covered salary for Tier 1 members and at 6% of covered salary for Tier 2 members. The employer collects and remits member-employee contributions according to the provisions of Section 414(h) of the Internal Revenue Code. Kansas law provides that employer contribution rates be determined annually based on the results of an annual actuarial valuation. KPERS is funded on an actuarial reserve basis. Kansas law sets a limitation on annual increases in the employer contribution rates. The employer contributions to KPERS for years ending December 31, 2012, 2011, and 2010 were \$116,611, \$99,905, and \$89,537, respectively, equal to the required contributions for each year.

NOTE 7 - Compensated Absences

It is the City's policy to pay employees' accrued vacation pay upon termination of employment. As of December 31, 2012, the liability for accrued vacation pay was \$30,086.

City of Sabetha, Kansas
Notes to the Financial Statements
For the Year Ended December 31, 2012

NOTE 8 - Risk Management

The City is exposed to various risks of loss related to torts; theft of, damage to and destruction of assets; errors and omissions; natural disasters and other events for which the City carries commercial insurance. Settled claims resulting from these risks have not exceeded commercial insurance coverage in any of the past three fiscal years.

NOTE 9 - Statutory Violations

Actual exceeded budgeted expenditures in the Parks and Recreation Fund, which is a violation of KSA 79-2935.

Note 10 – Capital Projects

During 2008, the City began construction on an Electric System Improvement Project. The estimated project cost was \$2.8 million, of which 75% is reimbursable by the Federal Emergency Management Agency (FEMA) and 10% is reimbursable by the State of Kansas. Total costs incurred as of December 31, 2012 were \$2,698,226. Total FEMA and Kansas reimbursements received as of December 31, 2012 were \$2,023,692 and \$305,881, respectively. The project was completed in 2012.

Note 11 – Subsequent Events

The City has entered into a lease agreement on May 1, 2013, to purchase equipment at a price of \$220,000 with an interest rate of 1.98%. The City will make five annual payments of approximately \$46,649.

NOTE 12 – Other Post Employment Benefits

As provided by K.S.A. 12-5040, the local government allows retirees to participate in the group health insurance plan. While each retiree pays the full amount of the applicable premium, conceptually, the local government is subsidizing the retirees because each participant is charged a level of premium regardless of age. However, the cost of this subsidy has not been quantified in this financial statement.

Under the Consolidated Omnibus Budget Reconciliation Act (COBRA), the government makes health care benefits available to eligible former employees and eligible dependents. Certain requirements are outlined by the federal government for this coverage. The premium is paid in full by the insured. There is no cost to the government under this program.

NOTE 13 - Commitments and Contingencies

The City receives significant financial assistance from numerous federal and state governmental agencies in the form of grants and state pass-through aid. The disbursements of funds received under these programs generally require compliance with terms and conditions specified in the grant agreements and are subject to audit. Any disallowed claims resulting from such audits could become a liability of the General Fund or other applicable funds. However, in the opinion of management, any such disallowed claims will not have a material effect on the financial statements of the City as of December 31, 2012.

City of Sabetha, Kansas
 Summary of Expenditures - Actual and Budget
 Regulatory Basis
 For the Year Ended December 31, 2012

<u>Funds</u>	<u>Certified Budget</u>	<u>Adjustment for Qualifying Budget Credits</u>	<u>Total Budget for Comparison</u>	<u>Expenditures Chargeable to Current Year</u>	<u>Variance Over [Under]</u>
Governmental Type Funds:					
General Funds:					
General	\$ 2,447,327	\$ -	\$ 2,447,327	\$ 1,877,208	\$ 570,119
Special Purpose Funds:					
Library	161,860	-	161,860	113,858	48,002
Airport	137,500	-	137,500	121,468	16,032
Parks and Recreation	4,244	-	4,244	4,873	[629]
Highway	67,530	-	67,530	66,396	1,134
Bond and Interest Funds:					
Debt Service	538,540	-	538,540	118,890	419,650
Capital Project Funds:					
Library Improvement	195,000	-	195,000	183,742	11,258
Business Funds:					
Electric	5,080,000	718,746	5,798,746	5,237,598	561,148
Water	875,000	-	875,000	793,377	81,623
Sewer	724,000	-	724,000	666,946	57,054

See independent auditor's report on the financial statements.

City of Sabetha, Kansas
General Fund
Schedule of Receipts and Expenditures - Actual and Budget
Regulatory Basis
For the Year Ended December 31, 2012

	<u>Actual</u>	<u>Budget</u>	Variance Over [Under]
Cash Receipts			
Taxes	\$ 648,760	\$ 653,190	\$ [4,430]
Intergovernmental	346,048	309,876	36,172
Franchise tax	194,444	218,000	[23,556]
Licenses	5,669	7,000	[1,331]
Fines and fees	15,227	20,000	[4,773]
Interest	7,130	9,400	[2,270]
Use of property	13,468	15,000	[1,532]
Charges for services	320,512	220,000	100,512
Reimbursement	261,291	300,000	[38,709]
Transfers in	71,269	246,774	[175,505]
Miscellaneous	<u>39,727</u>	<u>10,000</u>	<u>29,727</u>
Total Cash Receipts	<u>1,923,545</u>	<u>\$ 2,009,240</u>	<u>\$ [85,695]</u>
Expenditures			
General Government			
Personnel	189,597	\$ 195,000	\$ 5,403
Contractual services	101,338	120,000	18,662
Commodities	23,821	32,500	8,679
Law Enforcement			
Personnel	313,618	335,000	21,382
Contractual services	73,362	70,000	[3,362]
Commodities	11,754	18,000	6,246
Parks and Recreation			
Personnel	170,250	185,000	14,750
Contractual services	88,638	92,000	3,362
Commodities	12,180	20,000	7,820
Streets			
Personnel	225,569	220,000	[5,569]
Contractual services	106,511	115,000	8,489
Commodities	110,132	150,000	39,868
EMT			
Personnel	79,645	60,000	[19,645]
Contractual services	14,710	18,000	3,290
Commodities	10,528	12,000	1,472
Industrial development	3,631	6,000	2,369
Capital outlay	141,974	432,587	290,613
Cemetery subsidy	24,000	35,000	11,000

See independent auditor's report on the financial statements.

City of Sabetha, Kansas
General Fund (Continued)
Schedule of Receipts and Expenditures - Actual and Budget
Regulatory Basis
For the Year Ended December 31, 2012

	<u>Actual</u>	<u>Budget</u>	Variance Over [Under]
Expenditures (Continued)			
Debt service	\$ 175,950	\$ 175,000	\$ [950]
Miscellaneous	-	50,000	50,000
Transfers out	<u>-</u>	<u>106,240</u>	<u>106,240</u>
Total Expenditures	<u>1,877,208</u>	<u>\$ 2,447,327</u>	<u>\$ 570,119</u>
Cash Receipts Over [Under] Expenditures	46,337		
Unencumbered Cash, Beginning	<u>401,496</u>		
Unencumbered Cash, Ending	<u>\$ 447,833</u>		

See independent auditor's report on the financial statements.

City of Sabetha, Kansas
Library Fund
Schedule of Receipts and Expenditures - Actual and Budget
Regulatory Basis
For the Year Ended December 31, 2012

	<u>Actual</u>	<u>Budget</u>	Variance Over [Under]
Cash Receipts			
Taxes	\$ 114,342	\$ 149,082	\$ [34,740]
Total Cash Receipts	<u>114,342</u>	<u>\$ 149,082</u>	<u>\$ [34,740]</u>
Expenditures			
Appropriations	<u>113,858</u>	<u>\$ 161,860</u>	<u>\$ 48,002</u>
Total Expenditures	<u>113,858</u>	<u>\$ 161,860</u>	<u>\$ 48,002</u>
Cash Receipts Over [Under] Expenditures	484		
Unencumbered Cash, Beginning	<u>3,051</u>		
Unencumbered Cash, Ending	<u>\$ 3,535</u>		

See independent auditor's report on the financial statements.

City of Sabetha, Kansas
 Airport Fund
 Schedule of Receipts and Expenditures - Actual and Budget
 Regulatory Basis
 For the Year Ended December 31, 2012

	<u>Actual</u>	<u>Budget</u>	Variance Over [Under]
Cash Receipts			
Charges for services	\$ 47,102	\$ 35,000	\$ 12,102
Intergovernmental	<u>85,548</u>	<u>-</u>	<u>85,548</u>
Total Cash Receipts	<u>132,650</u>	<u>\$ 35,000</u>	<u>\$ 97,650</u>
Expenditures			
Contractual services	13,507	\$ 20,000	\$ 6,493
Commodities	24,381	17,500	[6,881]
Capital outlay	<u>83,580</u>	<u>100,000</u>	<u>16,420</u>
Total Expenditures	<u>121,468</u>	<u>\$ 137,500</u>	<u>\$ 16,032</u>
Cash Receipts Over [Under] Expenditures	11,182		
Unencumbered Cash, Beginning	<u>157,166</u>		
Unencumbered Cash, Ending	<u>\$ 168,348</u>		

See independent auditor's report on the financial statements.

City of Sabetha, Kansas
Parks and Recreation Fund
Schedule of Receipts and Expenditures - Actual and Budget
Regulatory Basis
For the Year Ended December 31, 2012

	<u>Actual</u>	<u>Budget</u>	Variance Over [Under]
Cash Receipts			
Taxes	\$ 4,873	\$ 4,244	\$ [629]
Total Cash Receipts	<u>4,873</u>	<u>\$ 4,244</u>	<u>\$ [629]</u>
Expenditures			
Transfers out	<u>4,873</u>	<u>\$ 4,244</u>	<u>\$ [629]</u>
Total Expenditures	<u>4,873</u>	<u>\$ 4,244</u>	<u>\$ [629]</u>
Cash Receipts Over [Under] Expenditures	-		
Unencumbered Cash, Beginning	<u>-</u>		
Unencumbered Cash, Ending	<u>\$ -</u>		

See independent auditor's report on the financial statements.

City of Sabetha, Kansas
Highway Fund
Schedule of Receipts and Expenditures - Actual and Budget
Regulatory Basis
For the Year Ended December 31, 2012

	<u>Actual</u>	<u>Budget</u>	Variance Over <u>[Under]</u>
Cash Receipts			
Taxes	\$ 66,396	\$ 67,530	\$ [1,134]
Total Cash Receipts	<u>66,396</u>	<u>\$ 67,530</u>	<u>\$ [1,134]</u>
Expenditures			
Transfers out	<u>66,396</u>	<u>\$ 67,530</u>	<u>\$ 1,134</u>
Total Expenditures	<u>66,396</u>	<u>\$ 67,530</u>	<u>\$ 1,134</u>
Cash Receipts Over [Under] Expenditures	-		
Unencumbered Cash, Beginning	<u>-</u>		
Unencumbered Cash, Ending	<u>\$ -</u>		

See independent auditor's report on the financial statements.

City of Sabetha, Kansas
Debt Service Fund
Schedule of Receipts and Expenditures - Actual and Budget
Regulatory Basis
For the Year Ended December 31, 2012

	<u>Actual</u>	<u>Budget</u>	Variance Over [Under]
Cash Receipts			
Taxes	\$ 28,484	\$ 23,063	\$ 5,421
Special assessment	<u>4,159</u>	<u>5,250</u>	<u>[1,091]</u>
Total Cash Receipts	<u>32,643</u>	<u>\$ 28,313</u>	<u>\$ 4,330</u>
Expenditures			
Principal	25,050	\$ 456,540	\$ 431,490
Interest	93,840	40,000	[53,840]
Miscellaneous	<u>-</u>	<u>42,000</u>	<u>42,000</u>
Total Expenditures	<u>118,890</u>	<u>\$ 538,540</u>	<u>\$ 419,650</u>
Cash Receipts Over [Under] Expenditures	[86,247]		
Unencumbered Cash, Beginning	<u>408,344</u>		
Unencumbered Cash, Ending	<u>\$ 322,097</u>		

See independent auditor's report on the financial statements.

City of Sabetha, Kansas
Library Improvement Fund
Schedule of Receipts and Expenditures - Actual and Budget
Regulatory Basis
For the Year Ended December 31, 2012

	<u>Actual</u>	<u>Budget</u>	Variance Over [Under]
Cash Receipts			
Intergovernmental	<u>\$ 231,807</u>	<u>\$ 286,000</u>	<u>\$ [54,193]</u>
Total Cash Receipts	<u>231,807</u>	<u>\$ 286,000</u>	<u>\$ [54,193]</u>
Expenditures			
Debt service	<u>183,742</u>	<u>\$ 195,000</u>	<u>\$ 11,258</u>
Total Expenditures	<u>183,742</u>	<u>\$ 195,000</u>	<u>\$ 11,258</u>
Cash Receipts Over [Under] Expenditures	48,065		
Unencumbered Cash, Beginning	<u>152,722</u>		
Unencumbered Cash, Ending	<u>\$ 200,787</u>		

See independent auditor's report on the financial statements.

City of Sabetha, Kansas
Electric Fund
Schedule of Receipts and Expenditures - Actual and Budget
Regulatory Basis
For the Year Ended December 31, 2012

	<u>Actual</u>	<u>Budget</u>	Variance Over [Under]
Cash Receipts			
Charges to customers	\$ 5,171,863	\$ 4,750,000	\$ 421,863
Intergovernmental reimbursements	718,746	-	718,746
Reimbursements	18,450	25,000	[6,550]
Use of money and property	<u>23,766</u>	<u>35,000</u>	<u>[11,234]</u>
Total Cash Receipts	<u>5,932,825</u>	<u>\$ 4,810,000</u>	<u>\$ 1,122,825</u>
Expenditures			
Administration	190,462	\$ 250,000	\$ 59,538
Production	837,494	700,000	[137,494]
Distribution	3,303,096	3,050,000	[253,096]
Capital outlay	608,021	750,000	141,979
Debt service	298,525	330,000	31,475
Adjustments for qualifying budget credits			
Reimbursements	<u>-</u>	<u>718,746</u>	<u>718,746</u>
Total Expenditures	<u>5,237,598</u>	<u>\$ 5,798,746</u>	<u>\$ 561,148</u>
Cash Receipts Over [Under] Expenditures	695,227		
Unencumbered Cash, Beginning	<u>3,304,916</u>		
Unencumbered Cash, Ending	<u>\$ 4,000,143</u>		

See independent auditor's report on the financial statements.

City of Sabetha, Kansas
Water Fund
Schedule of Receipts and Expenditures - Actual and Budget
Regulatory Basis
For the Year Ended December 31, 2012

	<u>Actual</u>	<u>Budget</u>	Variance Over [Under]
Cash Receipts			
Charges to customers	\$ 707,649	\$ 731,800	\$ [24,151]
Miscellaneous	22,567	6,000	16,567
Use of money and property	<u>9,012</u>	<u>15,000</u>	<u>[5,988]</u>
Total Cash Receipts	<u>739,228</u>	<u>\$ 752,800</u>	<u>\$ [13,572]</u>
Expenditures			
Administration	117,010	\$ 120,000	\$ 2,990
Production	156,473	185,000	28,527
Distribution	158,510	165,000	6,490
Capital outlay	60,059	75,000	14,941
Debt service	<u>301,325</u>	<u>330,000</u>	<u>28,675</u>
Total Expenditures	<u>793,377</u>	<u>\$ 875,000</u>	<u>\$ 81,623</u>
Cash Receipts Over [Under] Expenditures	[54,149]		
Unencumbered Cash, Beginning	<u>156,632</u>		
Unencumbered Cash, Ending	<u>\$ 102,483</u>		

See independent auditor's report on the financial statements.

City of Sabetha, Kansas
Sewer Fund
Schedule of Receipts and Expenditures - Actual and Budget
Regulatory Basis
For the Year Ended December 31, 2012

	<u>Actual</u>	<u>Budget</u>	Variance Over [Under]
Cash Receipts			
Charges to customers	\$ 369,466	\$ 404,750	\$ [35,284]
Reimbursements	4,148	2,975	1,173
Sales tax	231,808	231,500	308
Transfers in	-	106,240	[106,240]
Use of money and property	<u>7,624</u>	<u>9,860</u>	<u>[2,236]</u>
Total Cash Receipts	<u>613,046</u>	<u>\$ 755,325</u>	<u>\$ [142,279]</u>
Expenditures			
Administration	120,704	\$ 120,000	\$ [704]
Treatment	170,203	190,000	19,797
Capital outlay	48,820	39,000	[9,820]
Collection	114,738	140,000	25,262
Debt service	<u>212,481</u>	<u>235,000</u>	<u>22,519</u>
Total Expenditures	<u>666,946</u>	<u>\$ 724,000</u>	<u>\$ 57,054</u>
Cash Receipts Over [Under] Expenditures	[53,900]		
Unencumbered Cash, Beginning	<u>153,627</u>		
Unencumbered Cash, Ending	<u>\$ 99,727</u>		

See independent auditor's report on the financial statements.

City of Sabetha, Kansas
 Mary Cotton Public Library
 General Fund
 Schedule of Receipts and Expenditures - Actual
 Regulatory Basis
 For the Year Ended December 31, 2012

Cash Receipts	
State of Kansas	\$ 1,095
NEKL Association	17,185
City appropriation	113,858
Interest	920
Donations and sales	2,028
Matching funds	4,359
Miscellaneous	40
Miscellaneous	3,100
Reimbursements	<u>512</u>
Total Cash Receipts	<u>143,097</u>
Expenditures	
Salary and payroll taxes	76,055
Books, periodicals and film	24,806
Supplies	7,719
Utilities	11,176
Maintenance	18,236
Miscellaneous	<u>10,734</u>
Total Expenditures	<u>148,726</u>
Cash Receipts Over [Under] Expenditures	[5,629]
Unencumbered Cash, Beginning	<u>147,467</u>
Unencumbered Cash, Ending	<u>\$ 141,838</u>

See independent auditor's report on the financial statements.

City of Sabetha, Kansas
 Sabetha Cemetery
 General Fund
 Schedule of Receipts and Expenditures - Actual
 Regulatory Basis
 For the Year Ended December 31, 2012

Cash Receipts	
City appropriation	\$ 24,000
Interest	94
Charges for services	16,100
Donations	1,000
Miscellaneous	<u>32</u>
Total Cash Receipts	<u>41,226</u>
Expenditures	
Salaries	18,050
Payroll taxes	2,860
Contractual service	20,009
Supplies	2,438
Capital outlay	<u>1,166</u>
Total Expenditures	<u>44,523</u>
Cash Receipts Over [Under] Expenditures	[3,297]
Unencumbered Cash, Beginning	<u>9,927</u>
Unencumbered Cash, Ending	<u>\$ 6,630</u>

See independent auditor's report on the financial statements.

City of Sabetha, Kansas
 Agency Funds
 Schedule of Cash Receipts and Cash Disbursements
 Regulatory Basis
 For the Year Ended December 31, 2012

<u>Fund</u>	Beginning Cash <u>Balance</u>	<u>Receipts</u>	<u>Disbursements</u>	Ending Cash <u>Balance</u>
Tax Fund	\$ 24,974	\$ 535	\$ -	\$ 25,509
Municipal Court Fund	1,680	23,347	21,510	3,517
EMS Fund	12,192	8,019	-	20,211
Fitness Partners Fund	6,674	1,344	-	8,018
Playground Equipment Fund	23,554	51	10,142	13,463
Wellness Center Fund	-	10,791	2,166	8,625
Police Department Savings Fund	<u>903</u>	<u>-</u>	<u>903</u>	<u>-</u>
Total Agency Funds	<u>\$ 69,977</u>	<u>\$ 44,087</u>	<u>\$ 34,721</u>	<u>\$ 79,343</u>

See independent auditor's report on the financial statements.